

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name North Kent Sewer Authority	County Kent
Fiscal Year End 12/31/06	Opinion Date 3/2/07	Date Audit Report Submitted to State 3/30/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|---|-------------------------------------|---|
| 1. <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. <input type="checkbox"/> | <input checked="" type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616 460 9388	
Street Address 4001 Granada Ct		City Grand Rapids	State MI
		Zip 49534	
Authorizing CPA Signature 		Printed Name Peter Haefner, CPA	License Number 1102003198

NORTH KENT SEWER AUTHORITY

County of Kent, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

NORTH KENT SEWER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

March 2, 2007

North Kent Sewer Authority
Board of Trustees
Rockford, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Kent Sewer Authority (the Authority), Kent County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the North Kent Sewer Authority as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vredeveld Haefner LLC

Management's Discussion and Analysis

As management of the North Kent Sewer Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

The North Kent Sewer Authority is a joint venture established to account for the activities associated with the construction and maintenance of sewer system infrastructure utilized by participating municipalities. Participating municipalities include Alpine, Cannon and Courtland Townships, Plainfield Charter Township and the City of Rockford.

Financial Highlights

- Bonds of \$39,600,000 were issued during the year to fund the construction of a new wastewater treatment plant.
- The vast majority of current year activities were focused on the design and initial construction of the new plant. The new plant is scheduled for completion in fiscal year 2008.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Authority itself (known as the *Primary government*). The Authority has no legally separate component units for which the Authority is financially accountable. In this report, financial information for the Authority is reported separately from the financial information of joint venture participants.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt).

Both of the government-wide financial statements display functions of the Authority that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Authority include public works and interest payments on bonds outstanding. The Authority does not have any business-type activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. The Authority does not utilize proprietary or fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, five debt service, and the Wastewater Treatment Plant capital projects funds which are all considered to be major funds.

The Authority has not adopted an annual appropriated budget for its general fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this management discussion and analysis.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$1,824,224 at the close of the most recent fiscal year.

The most significant portion of the Authority's net assets reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to joint venture participants; consequently, these assets are *not* available for future spending. Although the Authority investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$46,479,343	\$6,523,531
Noncurrent assets		
Due from governmental units	2,496,813	2,634,021
Capital assets	17,743,505	13,563,232
Total assets	65,719,661	22,720,784
Liabilities		
Current liabilities	3,845,437	1,252,588
Long-term liabilities	60,050,000	20,815,113
Total liabilities	63,895,437	22,067,701
Net assets		
Invested in capital assets, net of related debt	859,305	584,464
Restricted	449,754	49,458
Unrestricted	515,165	19,161
Total net assets	\$1,824,224	\$653,083

Net assets of the Authority increased by \$1,171,141. The increase in net assets is primarily the result of the timing difference between when joint venture participants provide funding for debt service on capital construction bonds and when depreciation is recorded on the capital assets funded by these bonds.

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue		
Charges for Services	\$2,738,319	\$1,304,425
General revenue		
Unrestricted investment earnings	3,912	1,500
Total revenue	2,742,231	1,305,925
Expenses		
Public works	327,825	349,648
Interest	1,243,265	785,660
Total expenses	1,571,090	1,135,308
Increase (decrease) in net assets	1,171,141	170,617
Net assets-beginning of year	653,083	482,466
Net assets end of year	\$1,824,224	\$653,083

Governmental activities

During the year the Authority expended 21% of its total expenses on public works which included \$73,602 for operations and maintenance of the system and \$254,223 for depreciation on system infrastructure. The remaining \$1,243,265 of total expenses was for interest on bonds.

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$43,941,861, an increase of \$38,140,918 in comparison with the prior year. This increase is primarily the result of the bonds issued during the year and the progress in the completion of the wastewater treatment plant project.

The general fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$11,827. As a measure of the general fund's liquidity, it is important to note that the general fund operates on a reimbursement basis from joint venture participants.

Budgetary Highlights

The Authority did not adopt a budget for the general fund for the 2006 fiscal year.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental activities as of December 31, 2006, amounted to \$17,743,505 (net of accumulated depreciation).

Significant capital asset additions during the year include construction in progress for the wastewater treatment plant, land and infrastructure associated with various system projects.

The Authority's Capital Assets (net of depreciation) are summarized as follows:

	Governmental Activities
Land and right-of-way	\$874,265
Construction in progress	5,047,894
System infrastructure	<u>11,821,346</u>
Total	<u>\$17,743,505</u>

Additional information on the Authority's capital assets can be found in Note 4 of this report.

Debt. At the end of the current fiscal year, the Authority had bonded debt outstanding of \$60,595,000.

Additional information on the Authority's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets and Rates

- Rates are based on flow rates, content analysis, and various other factors as identified in the system operating agreement. These rates are designed to fund bond principal and interest payments and direct operating and maintenance costs. A budget has not yet been adopted for the general fund.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Kent Sewer Authority, Treasurer, 7 South Monroe, PO Box 561, Rockford, MI 49341-0560.

NORTH KENT SEWER AUTHORITY

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	Governmental Activities
Assets	
Cash	\$ 598,899
Investments	44,300,073
Interest receivable	91,063
Due from other governments	489,308
Due from other governments long-term	2,496,813
Capital assets	
Land and right-of-way	874,265
Construction in progress	5,047,894
System infrastructure (net of accumulated depreciation)	<u>11,821,346</u>
Total assets	<u>65,719,661</u>
Liabilities	
Accounts payable	1,487,482
Deposits	50,000
Noncurrent liabilities	
Unamortized bond premiums	1,762,955
Due within one year	545,000
Due in more than one year	<u>60,050,000</u>
Total liabilities	<u>63,895,437</u>
Net assets	
Invested in capital assets, net of related debt	859,305
Restricted for	
Capital projects	449,754
Unrestricted	<u>515,165</u>
Total net assets	<u>\$ 1,824,224</u>

The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Program Revenues					Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Primary government						
Governmental activities						
Public works	\$ 327,825	\$ 2,738,319	\$ -	\$ -	\$ -	\$ 2,410,494
Interest on long-term debt	1,243,265	-	-	-	-	(1,243,265)
Total governmental activities	\$ 1,571,090	\$ 2,738,319	\$ -	\$ -	-	1,167,229
General revenues						
Unrestricted interest earnings						3,912
Total general revenues						3,912
Change in net assets						1,171,141
Net assets, beginning of year						653,083
Net assets, end of year						<u>\$ 1,824,224</u>

The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2006

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
Assets			
Cash	\$ 49,247	\$ -	\$ -
Investments	-	-	-
Interest receivable	-	-	-
Due from other governments	15,169	2,496,813	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 64,416	\$ 2,496,813	\$ -
	<hr/>	<hr/>	<hr/>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 2,589	\$ -	\$ -
Deferred revenue	-	2,496,813	-
Deposits	50,000	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	52,589	2,496,813	-
Fund balances			
Unreserved			
Undesignated	11,827	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 64,416	\$ 2,496,813	\$ -
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Debt Service			Capital Projects		
<u>2001 Bonds</u>	<u>2002 Bonds</u>	<u>Wastewater Treatment Plant</u>	<u>Wastewater Treatment Plant</u>	<u>Total</u>	
\$ -	\$ -	\$ 482,315	\$ 67,337	\$	598,899
-	-	-	44,300,073		44,300,073
-	-	-	91,063		91,063
-	-	31,918	-		2,543,900
<hr/>					
\$ -	\$ -	\$ 514,233	\$ 44,458,473	\$	47,533,935
<hr/>					
\$ -	\$ -	\$ 10,895	\$ 1,031,777	\$	1,045,261
-	-	-	-		2,496,813
-	-	-	-		50,000
<hr/>					
-	-	10,895	1,031,777		3,592,074
-	-	503,338	43,426,696		43,941,861
<hr/>					
\$ -	\$ -	\$ 514,233	\$ 44,458,473	\$	47,533,935
<hr/>					



NORTH KENT SEWER AUTHORITY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

DECEMBER 31, 2006

Fund balances - total governmental funds	\$ 43,941,861
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Amounts reported for *governmental activities* in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Add - capital assets (net)	17,743,505
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Certain assets reported on the statement of net assets are not due and payable in the current period and therefore are not reported in the funds.

Add - accrued interest receivable from participants	442,221
Add - deferred revenue on long-term receivable due from participants	2,496,813

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Bonds payable	(60,595,000)
Add - unamortized bond premium	(1,762,955)
Deduct - accrued interest on bonds	(442,221)

Net assets of governmental activities	<u>\$ 1,824,224</u>
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The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
Revenues			
Intergovernmental revenue			
Participant fees	\$ 158,527	\$ 324,113	\$ 346,331
Connection fees	-	-	-
Interest	3,912	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	162,439	324,113	346,331
	<hr/>	<hr/>	<hr/>
Expenditures			
Current			
Public works	51,233	-	-
Capital outlay	440,357	-	-
Debt service			
Principal	-	175,000	125,000
Interest	-	149,113	221,331
	<hr/>	<hr/>	<hr/>
Total expenditures	491,590	324,113	346,331
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(329,151)	-	-
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Bond issue	-	-	-
Bond Premium	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	-	-
	<hr/>	<hr/>	<hr/>
Net changes in fund balances	(329,151)	-	-
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	340,978	-	-
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 11,827	\$ -	\$ -
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Debt Service			Capital Projects		
<u>2001 Bonds</u>	<u>2002 Bonds</u>	<u>Wastewater Treatment Plant</u>	<u>Wastewater Treatment Plant</u>		<u>Total</u>
\$ 404,378	\$ 190,288	\$ 210,040	\$ -	\$	1,633,677
-	-	488,722	-		488,722
-	-	14,616	449,391		467,919
404,378	190,288	713,378	449,391		2,590,318
-	-	-	490,627		541,860
-	-	-	4,016,508		4,456,865
160,000	70,000	-	-		530,000
244,378	120,288	210,040	-		945,150
404,378	190,288	210,040	4,507,135		6,473,875
-	-	503,338	(4,057,744)		(3,883,557)
-	-	-	39,600,000		39,600,000
-	-	-	2,424,475		2,424,475
-	-	-	42,024,475		42,024,475
-	-	503,338	37,966,731		38,140,918
-	-	-	5,459,965		5,800,943
\$ -	\$ -	\$ 503,338	\$ 43,426,696	\$	43,941,861

NORTH KENT SEWER AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

Net changes in fund balances - total governmental funds **\$ 38,140,918**

Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	4,434,496
Deduct - depreciation expense	(254,223)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets.

Deduct - bond issues	(39,600,000)
Deduct - bond premiums	(2,424,475)
Add - bond issuance costs	490,627

Repayment of bond principal is an expenditure in the governmental funds but repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds	530,000
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Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported in the funds.

Add - increase in interest receivable from participants	289,121
Deduct - payments from participants on long-term receivables	(137,208)
Deduct - increase in accrued interest payable	(289,121)
Deduct - amortization of bond premium	(8,994)

Change in net assets of governmental activities	\$ 1,171,141
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The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Kent Sewer Authority (the Authority) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity The North Kent Sewer Authority, which is established pursuant to Michigan Act 233, is a joint venture governed by a five member Board of Trustees appointed by the legislative bodies of five participating municipalities. The Authority was established to account for activities associated with the construction and maintenance of sewer system infrastructure utilized by participating municipalities. Participating municipalities include:

City of Rockford
Alpine Township
Cannon Township
Courtland Township
Plainfield Charter Township

Participating municipalities fund operating and debt service costs based on their common and exclusive sewer system usage. The criteria established by the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", for determining the reporting entity includes a significant operational financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the North Kent Sewer Authority.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, are reported in total. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The Authority utilizes no proprietary or fiduciary funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major governmental funds are reported as separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

The *Debt Service Funds* including the 1998 Series, West River 2000 Series, 4 Mile Lift 2001 Series, Willow 2002 Series, and Wastewater Treatment Plant, all account for the receipt of participants payments and the payment of principal and interest on debt utilized to finance infrastructure reconstruction, expansion and/or improvement projects.

The Wastewater Treatment Plant Construction *Capital Projects Fund* is used to account for construction of the new wastewater treatment plant.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Joint venture participant fees and connection fees are recognized as revenues in the year for which they are assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for joint venture participant assessments, connection fees and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which are recognized when due.

All Governmental Funds are accounted for on a spending or "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

Budgets and Budgetary Accounting

Comparisons to budget are not presented because a budget has not been adopted for the General Fund.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash and Investments

Cash consists of the balance in a check account while investments are certificates of deposits and other balances with Michigan financial institutions. Michigan law authorizes the Authority to invest in:

- a. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the State. In a primary or fourth class school Authority, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States or federal agency obligation repurchase agreements, and bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds that are composed entirely of investment vehicles that are legal for direct investment by a municipal government.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a municipal government.

Due From Other Governments

All balances due from other governments represent balances due from joint venture participants. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year end).

Deferred Revenue

The Authority reports deferred revenue when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue represents amounts due from participants in the future for a specific portion of the 1998 debt service.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Capital Assets

Capital assets, which include land, property, and equipment, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
System infrastructure	50

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures.

Fund Equity/Net assets

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent amounts set aside by the Board for tentative plans for future use.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Authority shall not incur expenditures in excess of the amount appropriated for the general fund.

The Authority's actual expenditures exceed appropriations for all general fund activity because an annual appropriation budget was not adopted.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

	Governmental Activities
Cash	\$ 598,899
Investments	<u>44,300,073</u>
Cash and investments	<u>\$44,898,972</u>

These deposits and investments are in three financial institution located in Michigan. All accounts are in the name of the Authority and a specific fund or common account. They are recorded in Authority records at fair value.

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. As of year end, \$44,598,972 of the Authority's bank balance of \$44,898,972 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2006
Governmental Activities				
Capital assets, not being depreciated				
Land and right-of-way	\$ 559,265	\$315,000	\$ -	\$ 874,265
Construction in Progress	928,398	4,119,496	-	5,047,894
Total capital assets, not being depreciated	<u>1,487,663</u>	<u>4,434,496</u>	<u>-</u>	<u>5,922,159</u>
Capital assets, being depreciated				
Infrastructure	12,711,126	-	-	12,711,126
Accumulated depreciation	635,557	254,223	-	889,780
Net capital assets, being depreciated	<u>12,075,569</u>	<u>254,223</u>	<u>-</u>	<u>11,821,346</u>
Governmental Activities capital assets, net	<u>\$13,563,232</u>	<u>\$4,180,273</u>	<u>\$ -</u>	<u>\$17,743,505</u>

Depreciation expense of \$254,223 was charged to the public works function.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

5. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Authority for the year ended December 31, 2006:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Governmental Activities					
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0% to 7.0%.	\$3,365,000	\$ -	\$175,000	\$ 3,190,000	\$185,000
2000 Sewer Bonds due in annual installments from \$50,000 to \$135,000 through May 2025; interest at 5.0% to 5.5%.	4,195,000	-	125,000	4,070,000	125,000
2001 Sewer Bonds due in annual installments from \$105,000 to \$325,000 through November 2026; interest at 2.6% to 4.9%.	5,405,000	-	160,000	5,245,000	165,000
2002 Sewer Bonds due in annual installments from \$70,000 to \$190,000 through November 2027; interest at 2.70% to 5.05%.	2,560,000	-	70,000	2,490,000	70,000
2005 Sewer Bonds due in annual installments from \$180,000 to \$405,000 beginning in 2009 through November 2025; interest at 3.5% to 4.5%.	6,000,000	-	-	6,000,000	-
2006 Sewer Bonds due in annual installments from \$755,000 to \$4,000,000 beginning in 2009 through November 2031; interest at 4% to 5%.	-	39,600,000	-	39,600,000	-
Total Governmental Activities	\$21,525,000	\$39,600,000	\$530,000	\$60,595,000	\$545,000

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Following is a summary of future principal maturities and interest requirements:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 545,000	\$ 2,748,921
2008	580,000	2,825,633
2009	1,540,000	2,795,165
2010	1,630,000	2,726,412
2011	1,670,000	2,654,616
2012-2016	9,485,000	12,170,042
2017-2021	11,695,000	9,972,117
2022-2026	14,825,000	6,866,455
2027-2031	18,625,000	2,853,245
Total	<u>\$60,595,000</u>	<u>\$45,612,606</u>

6. RELATED PARTY TRANSACTIONS

Charges for services and fiscal year-end receivables are attributable to related parties as follows:

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$ 422,691	\$ 101,082
Cannon Township	171,488	45,231
Courtland Township	32,122	9,247
Plainfield Charter Township	1,250,097	2,715,783
City of Rockford	397,914	114,778
Total	<u>\$2,274,312</u>	<u>\$2,986,121</u>

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

8. COMMITMENTS

The Authority had outstanding commitments of approximately \$37,500,000 for the wastewater treatment plant design and construction as of year end.

9. SUBSEQUENT EVENTS

Subsequent to year end the Authority entered into a contract for the construction of system infrastructure of approximately \$2,800,000.



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March 2, 2007

To the Board of Trustees
North Kent Sewer Authority
Rockford, MI

In planning and performing our audit of the financial statements of the North Kent Sewer Authority (the Authority), for the year ended December 31, 2006, we noted certain matters involving internal control and/or operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

AUDITING STANDARDS

Several recently issued auditing standards will require changes in auditing practices as well as additional review and reporting on internal controls and management practices. We look forward to working with Authority officials to implement these new requirements.

BUDGET

During our audit we noted that the Authority had not adopted a budget for the Authority's general fund. Michigan law currently requires governmental entities to adopt annual budgets for general and special revenue funds. These budgets should be adopted before each fiscal year begins. We suggest that the authority adopt a budget annually for the general fund.

We would like to thank the Authority Officers for their assistance during the annual audit. Their advanced preparation and availability allowed for an efficient and effective audit process.

This report is intended solely for the information and use of the North Kent Sewer Authority Board, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vredeveld Haefner LLC



Vredeveld Haefner LLC

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March 2, 2007

To the Board of Trustees
North Kent Sewer Authority
Rockford, MI

We have audited the financial statements of the North Kent Sewer Authority (the Authority), for the year ended December 31, 2006, and have issued our report thereon dated March 2, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 9, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the useful lives of capital assets.

Management's estimate of the useful lives of capital assets is based on historical actual usefulness and expected future usefulness of these assets. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We have attached a listing of proposed audit adjustments which were recorded by the Authority. Each proposed adjustment either individually or in the aggregate may indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Authority Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Haefner LLC

North Kent Sewer Authority
12/31/2006
Audit adjustments

Account	Account name	Debit	Credit
406-530	Capitla Expenditures:Construction		380,511.00
406-301	Retained Earnings	380,511.00	
	To reverse 2005 Dykema Excavators accrual of construction costs		
101-201	Accounts Payable	7,059.50	
101-536	Professional Services:Engineering Services:General Sys Consulting		7,059.50
	To remove accrual for Prein bills paid in 2006 and accrued in 2006		
101-201	Accounts Payable	5,520.05	
101-535	Professional Services:Attorney Fees		5,520.05
	To remove accrual of Blakeslee bills paid in 2006 and accrued in 2006		
406-103	Accrued Interest Receivable	91,063.00	
406-401	Interest Income		91,063.00
	To accrue interest income on Mercantile CD's		
406-530	Capitla Expenditures:Construction	815,867.95	
406-201	Accounts Payable		815,867.95
	To accrue Triangle invoice for 2006 construction paid in 2007		
305-403	Connection Fees		31,917.51
305-150	Accounts Receivable	31,917.51	
	To record Courtland and Plainfield connection fees paid in 2007 for 2006 connections		
406-450	Bond Proceeds	2,001,095.00	
406-450.1	premium		2,001,095.00
406-450.1	premium		423,380.00
406-550	Bond Issuance Costs	423,380.00	
	To record bond issuance costs and premium		
406-531	Capitla Expenditures:Engineering	215,908.60	
406-201	Accounts Payable		215,908.60
	To accrue engineering costs completed in December 2006 paid in January 2007		
305-403	Connection Fees	10,894.88	
305-201	Accounts Payable		10,894.88
	To record duplicate payment made by Plainfield Charter Township		
301-299	Deferred Revenue	391,350.00	
301-103	Accounts Receivable		391,350.00
	To adjust receivable from the City of Rockford & Plainfield Charter Township for the fixed portion of 1998 bonds		